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OUTGOING LTR NO.

# EG&G ROCKY FLATS

DE ORDER# 2320.1  
94 RF 10359

EG&G ROCKY FLATS, INC.  
ROCKY FLATS PLANT, P.O. BOX 46000, GOLDEN, COLORADO 80401 • (303) 966-7000

| DIST.            | LTR | ENC |
|------------------|-----|-----|
| MARAL, M.E.      |     |     |
| JURLINGAME, A.H. | X   |     |
| USBY, W.S.       |     |     |
| RANCH, D.B.      |     |     |
| ARNIVAL, G.J.    |     |     |
| AVIS, J.G.       |     |     |
| ERRERA, D.W.     |     |     |
| RAY, R.E.        |     |     |
| EIS, J.A.        | X   |     |
| LOVER, W.S.      | X   |     |
| OLAN, P.M.       |     |     |
| ANNI, B.J.       |     |     |
| ARMAN, L.K.      |     |     |
| EALEY, T.J.      |     |     |
| EDAH, T.         | X   |     |
| HILBIG, J.G.     |     |     |
| HUTCHINS, N.M.   |     |     |
| ACKSON, D.T.     | X   |     |
| ELL, R.E.        |     |     |
| UESTER, A.W.     |     |     |
| IARX, G.E.       |     |     |
| McDONALD, M.M.   |     |     |
| McKENNA, F.G.    | X   |     |
| MONROSE, J.K.    |     |     |
| MORGAN, R.V.     |     |     |
| POTTER, G.L.     |     |     |
| PIZZUTO, V.M.    |     |     |
| RISING, T.L.     |     |     |
| SANDLIN, N.B.    |     |     |
| SCHWARTZ, J.K.   |     |     |
| SETLOCK, G.H.    | X   |     |
| STEWART, D.L.    |     |     |
| STIGER, S.G.     | X   |     |
| OBIN, P.M.       |     |     |
| MOORHEIS, G.M.   |     |     |
| WILSON, J.M.     |     |     |
| Probeck, G.J.    | X   |     |
| Wick, J.K.       | X   |     |
| Wester, W.T.     | X   |     |
| Barrett, J.      | X   |     |
| McSquire, P.     | X   |     |
| Elmquist, T.H.   | X   |     |
| Brusky, E.A.     | X   |     |
| CORRES. CONTROL  | X   | X   |
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October 11, 1994

Paul Cote  
Acting Director of Waste Management  
DOE, RFFO

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94-RF-10359

## OFFICIAL DRAFT REPORT ON AUDIT OF EFFECTIVENESS AND EFFICIENCY OF THE ROCKY FLATS ANALYTICAL SERVICES PROGRAM (10213), JAG-177-94

The following observations resulted from reviewing:

Tentative Findings and Recommendations, Draft Report (WMD:WJP:07494) dated July 6, 1994

Official Draft Report (FCRD:LLB:09967) dated September 23, 1994

Analytical Services Response to Tentative Findings and Recommendations (JAG-154-94) dated August 12, 1994

Analytical Services acknowledges that Part I was added in the September 23, 1994 report and is partially responsive to the request of Analytical Services for a statement of the purpose and methodology for the audit in the body of the report. This section refers to new pertinent guidance not referenced earlier, i.e. the "Report of the Contract Reform Team".

Analytical Services acknowledges that Part II of the September 23, 1994 report reflects essentially the same information as the July 6, 1994 Tentative Findings and Recommendations report, with the following changes:

1. The addition of \$231,000 to the total of offsite lab cost projections (which we concluded were the result, including expenses, for maintaining audit currency of contracted laboratories for the Waste program).
2. Change in the reported rerun rates for the in-house bioassay labs for FY93 from 25% to 24%.
3. Change in the presumed onsite lab depreciation costs from \$360,000 to \$420,000 per year. (The basis for this calculation remains unclear to Analytical Services and the value continues to be immaterial to cost effectiveness calculations on the OIG).
4. The projected annual cost savings calculated for the auditor's recommendation changed from \$3.1 million to \$2.9 million (see item #1 above).

Potential significant but currently undocumented costs for such factors as return to Rocky Flats of unused sample or disposition of mixed waste (both radioactive and hazardous) generated in the commercial lab during analysis were not included in the September 23, 1994 report.

### CLASSIFICATION:

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| UNCLASSIFIED | X |
| CONFIDENTIAL |   |
| SECRET       |   |

AUTHORIZED CLASSIFIER  
SIGNATURE  
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10/10/94

REPLY TO RFP CC NO:  
23218 RF 94

CTION ITEM STATUS  
PARTIAL/OPEN  
X CLOSED  
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RIG & TYPST INITIALS  
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ADMIN RECCRD  
SW-A-003515

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Analytical Services acknowledges that a Part III was added, in which a summary interpretation of the August 12, 1994 response was stated and further explanation of the auditor's position presented as "auditor comments". For purposes of preparing this memo, a number (1, 2, 3, 4, 5) was assigned to each discussion of "management comments" as they appear in the Official Draft Report. This number is used in the following for reference to "management comments" and "auditor comments" for each relevant issue.

Input from the August 12, 1994 response were satisfactorily interpreted for issues 1, 2, 4, and 5. The summary of management comment #3 correctly stated the "management found the finding over simplistic and stated that it (the finding) did not demonstrate an appreciation of important, additional factors which had a significant impact on the contractor's decision to use subcontracted analytical services."

However, the interpretation of management's position in comment #3, concerning the risk and cost impact of subcontracting work which traditionally and historically has been performed by the bargaining unit, was incorrect. The risk here is NOT related to "if analyses were done improperly" as stated in the report summary. It is related to the risk that a labor arbitrator will in the future rule that the labor contract was violated, and that the M&O Contractor would be liable for back wages for the miss-assigned work, equivalent to double payment for the analytical services. Additionally, the portion of the auditor's comment regarding the cited management's reply to the union grievance is not understood. Section 3161 is not related to management comment on the risk of subcontracting work traditionally assigned to the union. In addition, our collective bargaining agreement with the union is legally significant. The fact that management had been forced to defend its decision to contract out analytical services in arbitration, only supports our position that the OIG has over-simplified the Make-Buy process.

This misinterpretation in management comment #3 led to a discussion in the auditor comments on this issue referring to "defective or indefensible analytical data" that is not relevant to the issue. The management comment on this issue applies whether or not the resulting data is defective or indefensible.

Note: The technical ability of subcontracted laboratories is evaluated in the pre-award audit and contracting process using the standards of the Statement of Work and in periodic audits or data quality assessments that are performed continuously after award of subcontract. Payments for services, and continued use of the subcontracted lab, depends on the outcome of these reviews.

Analytical Services disagrees with the auditor's conclusion that maintenance of an in-house capability is only a valid consideration if that capability were legally required. If there were such a legal requirement, there would be little reason for Make-Buy analysis.

Analytical Services observed that the auditor comments on management comment #2 incorrectly states that the October 1992 Cost Benefit Analysis report was based on unburdened labor rates. The projected costs in that report were based on burdened labor rates.

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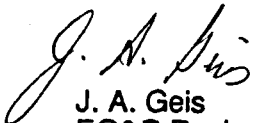
The auditor comments on management comment #4 suggests that certain high onsite lab costs during the period observed for the audit should have been segregated and charged to the workforce restructuring (DOE budget-imposed layoffs) initiative rather than burdening existing programs. Although we agree that this approach would certainly be desirable for comparisons on onsite versus offsite lab costs, the budget planning and accounting systems in place at that time were unable to accommodate the DOE initiative on short notice.

This same auditor comments discussion also takes the position that general plant overhead charges are appropriate for inclusion in onsite lab costs. Since the direct-charge and indirect-charge system is an accounting system decision for funding plant operations, it would appear that the Direct Cost Recovery system implemented for FY95 onsite Analytical Services funding is a better accounting alternative. It will not only distribute onsite and offsite costs for analytical services to programs appropriately (fixed unit-price), but will provide a better basis for "Make or Buy" decisions as recommended in the subject audit report.

Note: The auditor comments also states that "several other DOE sites were able to recover fully burdened costs and remain competitive with commercial laboratories." Although other sites may not use the same criteria for burdened labor rates, it would be useful to know which sites these are. Since the onsite labs maintain active networking relationships with labs at other sites, we have the ability (and responsibility) to share and incorporate appropriate cost-effectiveness "lessons-learned" into Rocky Flats lab operations.

The auditor comments on management comment #5 disagrees with management's position that the audit comparison of turnaround times was inappropriate. Analytical Services is aware that the onsite laboratories are a "captive lab", available to provide services at the demand of DOE and under the direction of DOE. Major impacts on turnaround times and service costs result from response to priority changes as part of this relationship and these were not considered in the comparison. Subcontracted labs would suffer the same turnaround time impacts if they were obligated to accept short-notice DOE priority changes and demands, as the onsite labs were during the audited period. The customer-service orientation of onsite labs and the mutual interests of labs and projects, by virtue of their relationship as entities of the M&O Contractor, actually facilitates lessening or mitigating the resulting impacts on other projects. Priority decisions within commercial labs, when DOE and other customer priorities are in conflict, most likely would be governed by financial interests of the commercial lab.

Analytical Services reiterates that the New Directions Initiative of EG&G for FY95 is intended to result in a new way of doing business that will assign analysis services work in a cost-effective and efficient manner for accomplishing DOE program objectives (cost, schedule, data quality). All the relevant factors that need to be considered for assignment of work will be evaluated in the decision-making process.



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EG&G Rocky Flats, Inc.  
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Orig and 1 cc - Paul Cote